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SUBJECT: POST MFA UPDATE - GARMENT PRICES AND ORDERS DROP

BY 20 PERCENT

¶1. Summary: Garment orders from the U.S. to Bangladesh have dropped by around 20 percent following the end of MFA quotas. The full impact, however, has not yet been felt as the industry finishes production of orders placed last fall. BGMEA projects a further drop in prices and orders if Bangladesh fails to get duty-free access to the U.S. market. End Summary.

¶2. EconOff met with the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), Bangladesh's principal garment export association, the Bangladesh Textile Mills Association (BTMA), the Bangladesh Knitwear Manufacturers and Exporters Associations (BKMEA) and individual garment exporters in early May to discuss the impact of the end of quotas under the Multi-fiber Arrangement (MFA). BGMEA Vice President Anwarul Alam Chowdhury confirmed reports from exporters that orders for summer and fall deliveries (normally placed during March and April) have been slow and significantly fewer than 2004. Although firm numbers will not be available until late July, BGMEA predicts a minimum 20% drop in overall orders in this cycle compared to the same cycle in 2004. One of the largest garment exporters, Hameem Garments, reports a 20% drop in their orders already. Favorite Garments, a small exporter that works on wholesale contracts, said that his production has fallen to 80% of capacity due to a drop in orders.

¶3. The Managing Director of Hameem Garments Group, Mr. A.K. Azad, told us that orders were slow this year because buyers are shopping around for the cheapest sellers in China and India. Exporters have noticed a significant drop in price as well due to competition from China. BGMEA numbers indicate an 18 percent drop in overall prices. Hameem Group, which has a well-established client base, has experienced a 15 percent reduction in prices this year. The President of the smaller Favorite Garments said that he has noticed a 20 percent drop in prices since the MFA phase-out.

¶4. In the overall RMG sector, knitwear has done relatively well, while woven garments have taken the biggest hit. Knitwear has grown substantially in the past year, even after the MFA phase-out. BGMEA credits this to the quality of knitwear produced here that meets the needs of a higher priced client base. BKMEA notes that more than 85% of Bangladesh knitwear exports go to Europe. (Bangladesh did not have sufficient knitwear quotas to penetrate the U.S. market.) Duty-free treatment in Europe and Canada post MFA is seen as a key factor enabling companies to retain, and even expand, market share.

¶5. In the woven sector, where price is the most important factor, Bangladesh cannot compete with larger countries like China and India. BGMEA and the exporters fear that they will lose most of their share of the U.S. woven garments market as buyers turn to cheaper sources in China. Lack of backward linkages, especially in woven garments, and longer lead-times due to geographic location, inadequate infrastructure, and an inefficient and corrupt port, substantially undermine the industry's competitive advantage in quality and labor costs. Manufacturers have little room to cut costs in the face of sharp price drops for finished goods, as 85% of the input fabrics are imported. As a result, profit margins will shrink, leaving less capital available for investment to modernize aging plant and equipment.

¶6. BGMEA President Annisul Haque, however, is optimistic that the Bangladesh garment sector would recover from this downward slide if the U.S. passed the Trade Act of 2005, which would give Bangladesh duty-free access to the U.S. market. Ever the optimist, Haque points to the association's recent "successful" visit to Washington, where they persuaded Hillary Clinton and John McCain to back the bill, and to assurances the association received that the bill will pass in September. BGMEA also welcomes U.S. and European safeguard actions on select Chinese garment products, believing Bangladesh can compete as a substitute source of supply.

¶7. BTMA and large exporters expressed interest in establishing relationships with U.S. cotton exporters for Bangladesh garment export market. They propose duty free access for garments produced from U.S. cotton in exchange for

an exclusive cotton import agreement with the U.S. They see this as a realistic alternative to the more general duty-free access bill.

18. Comment: Despite BGMEA's confident prediction that the Trade Act of 2005 will become law in September, most exporters are more realistic about its prospects and remain concerned over the industry's future. They recognize that chronic problems of infrastructure and governance significantly hurt the industry's global competitiveness, yet remain largely outside industry's control. Although these problems were apparent long before quotas ended, successive governments have failed to address them, and there is little evidence to suggest they will do so now. As a result, Bangladesh's RMG industry will find it increasingly difficult to compete in a quota free world. End comment.

THOMAS